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Warfield, Solomon Davies

Car shortage - the permanent remedy

Baltimore

[1923]

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Car shortage - the permanent remedy; address by S. Davies Warfield ... before the National league of commission merchants (thirty-first annual convention) and members of Chamber of commerce of Cincinnati, Cincinnati, Ohio, January 12, 1923. Baltimore, National association of owners of railroad securities [1923]

cover-title, 28 p. 23 cm.

ONLINED

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TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 10:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 3-24-97 INITIALS: FB

TRACKING # : 22687

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Car Shortage --The Permanent Remedy

ADDRESS BY

S. DAVIES WARFIELD

President, National Association of Owners of Railroad Securities
President, Seaboard Air Line Railway Company
President, The Continental Trust Company, Baltimore

BEFORE

THE NATIONAL LEAGUE OF COMMISSION MERCHANTS
(Thirty-first Annual Convention)

AND

MEMBERS OF
CHAMBER OF COMMERCE OF CINCINNATI

CINCINNATI, OHIO
JANUARY 12, 1923

NATIONAL ASSOCIATION OF OWNERS OF RAILROAD SECURITIES
HEADQUARTERS: BALTIMORE, MD.

CAR SHORTAGE—THE PERMANENT REMEDY

ADDRESS BY S. DAVIES WARFIELD BEFORE THE
NATIONAL LEAGUE OF COMMISSION MERCHANTS
AND MEMBERS OF
CHAMBER OF COMMERCE OF CINCINNATI

N.W.L. aug. 10, '22

MR. CHAIRMAN,
MEMBERS OF THE LEAGUE
AND CHAMBER OF COMMERCE:

There is perhaps no domestic business problem that so intimately affects the American people as car shortage. It reaches into every mining, industrial, business and agricultural enterprise, and into the home of every citizen. It is still with us, perhaps not so acute. The public is thoroughly aroused because of its continuance, with no constructive means for its permanent relief. It has raised prices on the consumer, has caused great public concern, and brought about a political upheaval at the last election when, whether rightfully or wrongfully, many Members of the Senate and House of Representatives of the Congress were defeated in States and districts where car shortage was most acute. There must be underlying, fundamental causes for these conditions to have continued, at periods, during many years until the accumulation of evidence of failure to relieve them threatens the continuance of private operation of the railroads.

I shall confine my remarks to car shortage and the permanent remedy, and will not go into the general subject of transportation because of lack of time and it would burden you. I should like to do so because of the grave misunderstanding and sometimes misrepresentation of the purposes of fundamental features of the Transportation Act of 1920, where the farmers and shippers generally have been led to believe that Section 15a of that Act is inimical to their interests, whereas it is of far-reaching and permanent importance in stabilizing rail transportation

as a National system. If the time permits I will discuss Section 15a of the Act later, it requires detailed explanation for its main purposes and necessity to be understood.

Car shortage. Now what produces car shortage? It is my purpose, gentlemen, in the discussion of this subject to hew to the line and let the chips fall where they may, for it is an amazing situation that car shortage occurs and continues to exist—and in certain heavy producing territories with almost seasonal regularity—at every rapid or substantial revival of business, yet no means has been adopted for its permanent avoidance or relief. As Mr. Julius H. Barnes, President of the United States Chamber of Commerce, has well said:

> "There is no real study being given to the transportation problem, and results are following which are a *rebuke to American intelligence.*"

CAUSES OF CAR SHORTAGE

There are underlying causes that produce car shortage, let us discuss them, several are of financial origin.

First, declination or inability of a railroad to finance its proportion of the equipment essential to the conduct of transportation *as a whole.* Each railroad holds an obligation to the country to supply itself with cars, not alone to meet its own loading requirements, but *also its pro rata amount of the cars passing over its rails in through or joint service.*

The second contributory cause is whether each railroad is getting out of its cars all that it should get out of them. In other words, is there not the need of a co-ordinating or clearing house influence of and by the railroads which will not alone place before every railroad what other railroads are getting out of their equipment but *that can require of all carriers* the observance of like equipment service.

The third cause is lack of standardization of equipment, especially interchange equipment, not only

as respects new cars but as respects a plan of action under which cars shall be graded as to the class of repair that they shall undergo, whether running repairs or rebuilding under standardized plans for rebuilding, at the lowest cost commensurate with the results to be obtained; I mean under plans that will put a car in condition so it will be kept out of the repair shops, kept on the road, and that will prolong its life. It is well established that two properly rebuilt cars perform more constant service than three ordinarily repaired cars.

Should it not be required of the carriers that a plan of standardization in respect to both new cars and for rebuilding or the rehabilitation and reconstruction of old or bad order cars be adopted and made effective together with the most economical means for its accomplishment? Should not interchange freight cars be kept rolling, as far as practicable, from one section to the other, not spending a large part of their time in out-of-the-way and perhaps inadequate railroad repair shops or in running back, empty, to their owners for repair or reloading?

The fourth cause is lack of method or means for a more extended use and distribution of cars used in interchange traffic through pooling certain kinds of this class of car, not every interchange car, for there is special equipment that should be confined to traffic routes.

The fifth contributory cause is lack of facilities in many instances to quickly load and unload cars and clear them through freight yards and terminals.

These constitute the main obstructions to adequate car service.

A VITAL NECESSITY NOT PROVIDED

But of all the needs of transportation that continue to be unprovided for and that cannot be provided through the existing car service agency of the railroads, the most vital is failure to supply a carrier, unable to finance its equipment, both new and rebuilt, with the means to finance it, coupled with the

requirement that when a carrier's obligation to the public in equipment is *determined, this obligation must be fulfilled.* This is fundamental to the stoppage of car shortage. Let us see if this is not the fact.

The Interstate Commerce Commission for years has had the power granted to it by Congress under which it can require any railroad to perform its duty to the public by equipping itself with locomotives and with freight cars in order that it shall not continue a debtor carrier in respect to cars, but that it shall put itself in position to supply its quota of cars necessary to haul the products of the country. Now, let us see how this operates.

The Interstate Commerce Commission possessing this power, how can it use it. It can say to railroads A and B, you are short of particular classes of equipment. We *order* you, in the public interest, to provide that equipment. Has the Commission done this? It has not because it cannot force a railroad to provide itself with something that it may be unable to finance, so these powers are inoperative.

What has the National Association of Owners of Railroad Securities done in respect to the permanent relief of these conditions?

Now, before going into details, let me say that the position of the management of the Association of security owners has been difficult. Often misunderstood, told or asked "what have the security owners to do with railroad operation," the way has been hard to travel. But, as many of you know, we have accomplished quite a little thus far.

We have driven home to the American people that the great bulk of railroad securities are not stored away in the vaults of the "idle rich" but vast amounts are owned and held to help meet the death claims of millions of the population that constitute the majority, a continuing majority for as the present generation passes away others take their place, leaving behind them life insurance policies, often the sole support of the beneficiaries thereof, and now protected in 25 per cent of their value by railroad securities. We have endeavored to impress upon the public

understanding and upon those in official or legislative position who represent them, that there are also ten million depositors in the savings banks of the country, most of them mutual institutions with their mutual ownership of the millions of railroad securities owned and held for the support and payment of such deposits belonging mostly to toilers by hand and who are unable themselves to watch over their investment in these securities.

SECURITY OWNERS' POSITION AND PROPOSALS

In January, 1919, we placed before Congress the necessities of transportation, as we saw them, and after investigation by Committees of Congress—probably the most extensive ever made in the history of transportation legislation—many of these suggestions were included in the Transportation Act of 1920.

Whenever opposition comes—as it so often does from reactionary forces found in both the railroad and financial world—the popular argument, in default of an adequate answer to our proposals, as has been stated, is what have the security owners to do or know about railroad operation? Much mystery is made respecting railroad operation. There is no mystery about it. It is producing and selling transportation. We do not wish to interfere, but in default of remedies to correct manifest transportation and financial necessities, we employed men of international reputation in such matters and have not moved without knowledge of what we were doing. It is not enough for the railroads to publish accounts of increased car loadings and ton mileage. These are the necessary results of natural year to year advances made in any great enterprise. If these increases had not taken place, then the railroads would have been slipping backward. But what is being done to cut the tap root of car shortage?

Our answer to what have we to do with railroad operation has been that railroad operation *produces either surpluses or deficits.* And any operating condition which fails of purpose in giving the public

what they have a right to demand means a public attitude toward the railroads, and consequently those who own their securities, that results in drastic action by Congress or regulatory agencies, bringing depletion in security values and finally receiverships. For unless the railroads recognize their duty to their patrons and to the public as a whole they will come to grief.

Secondly, and this is entirely without criticism, where the policy of the railroads has been that each railroad continues to conduct its affairs with regard to its own exclusive use of all of its facilities with the sole purpose of getting ahead of some other railroad, it becomes difficult to establish the inter-carrier relations essential to adequate service economically conducted. It has been amply demonstrated that it is not practicable to expect these great transportation machines to get together and do those things that are manifestly in the public interest, without a co-ordinating agency of and by the railroads—a clearing house—to establish and hold such relations between the railroads as will bring this about. This is not criticism. We have competent railroad presidents and operators. But years of bitter competition have built a great National system of transportation composed of single individual railroad entities now becoming top heavy, but only because each railroad continues to operate under its exclusive prerogative with little reference to the demands of transportation *as a whole*. So, when it comes to the use of a facility jointly, like an ordinary interchange box car, each railroad desires to hold on to its own.

Every carrier properly has its own ideas as to what a car should be in construction, how many of each class it should buy, how they should be repaired—whether ordinary running repair or rebuilt—whether the mileage made and the loading of its cars are satisfactory to itself, whether it proposes to insist that the ordinary interchange box car that it owns shall be unloaded at a distant point on another road and returned to it empty for reloading or for repair and the numerous other questions that would be

involved in a carrier standing on its own "dung hill" and declining to meet another unless upon its own terms.

RAILROADS ARE INTERDEPENDENT

Is it fair to you, the shippers, that these fundamental necessities of transportation shall be decided upon and put in effect without consultation among the carriers and every consideration given to the policy of all the carriers respecting these questions and in full recognition that each individual carrier forms only one cog in the wheel that propels the transportation machine and can only move when in unison with the other cogs? Only can a determination be reached, in respect to the important questions just mentioned, through a most careful survey of the needs of transportation as a whole and of the needs of each individual carrier that forms a part of the transportation machine, under well-rounded plans, so that each carrier would supply itself with cars to meet its necessities, with due consideration, however, to what may be considered necessary for other carriers to fulfill their obligations likewise to the public, so that there will neither be duplication or deficiency in any class of freight car equipment.

Your business success is dependent upon the establishment by the railroads of such inter-carrier relations as will ensure to you an interchange car service under which the cars you pay for in freight rates shall be in construction adapted to your use, that they shall be handled quickly and maintained economically, kept moving with a load as far as economically possible. You have no interest in what railroad owns these cars. You want service and if the movement and maintenance of these cars can be best and most economically accomplished in your interest through disregarding ownership, with due regard paid to the rights of the owner, you wish this done.

The Commission Merchants of the United States have been holding your annual convention in this city for several days—you are co-operating to an end. Cincinnati has its Chamber of Commerce, so has

every city. In turn, there is the United States Chamber of Commerce—a nation-wide co-operative business organization. Cincinnati banks have their clearing house, so have all large cities. In turn comes the Federal Reserve System with its Federal Reserve Banks—the National financial clearing house of the country. What are all your organizations, trade or otherwise, but clearing houses for the co-operative transaction of business?

A RAILROAD CLEARING HOUSE AGENCY ESSENTIAL

What have the railroads? How do they function as a whole? They have much more in common. Each one of your enterprises in the daily conduct of its business can function independently of the other. A railroad cannot function independently of other railroads. In interstate commerce one is entirely dependent upon the other because the car it loads for you must pass from it to be handled by other railroads to its destination. It may require half a dozen railroads to transport it to your customer.

For years the railroads attempted to function as a whole through their Association of Railway Executives. You have had the result before you. Hardly a member could say it was successful.

The car service agency of the railroads has not stopped car shortage during many years' trial. Should this continue without at least an effort on your part to help secure a co-operative clearing house agency of and by the railroads, that shall be authenticated by Congress, with powers only operative through the Interstate Commerce Commission, after its approval, and through which action in the interest of transportation as a whole can be required. Do you believe that private operation of the railroads can continue without some agency, such as is used in nearly every business or community to produce results?

Because of the continuance of an exclusive policy, with no co-operative or co-ordinating agency, you gentlemen find yourselves laboring under car shortage

difficulties and I may say laboring under railroad rates that with different administrative conditions could be lowered, for no railroad rate can find justification unless and until economies are ascertained and put in effect under the recognition that transportation must be considered *as a whole* and not administered in the interest of any individual railroad, which cannot be done if due regard for the public interest is to be shown.

OBSTRUCTIONS TO CAR SERVICE

Let us briefly again enumerate the underlying causes of car shortage, so that there may be no misunderstanding. It is desirable to drive home, first, the causes of car shortage, and, second, means to permanently avoid them. With the causes stated and agreed upon, this audience will be convinced that what we propose, if accepted and put in operation, would kill this blight upon American industry and agriculture known as "car shortage."

The five present obstructions to car service to which attention has been called are, briefly:

1. That each carrier has not furnished, both as to class and amount, its quota of car equipment in proportion to the total requirements of transportation, as a whole;

2. That every carrier has not secured as high efficiency out of the cars it operates as other carriers operating under like conditions;

3. That there has never been put in effect standardized plans under which freight cars shall be purchased, rehabilitated or rebuilt;

4. That methods are not practiced that will produce a better supply, more extended use and wider distribution of certain classes of interchange freight cars now in service or to be put in service;

5. That freight yard and terminal facilities

are not used or being constructed such as will jointly operate to quickly load and unload cars.

Now, as stated, these present the underlying obstructions to adequate car service. Failure to provide against any one of them may create car shortage, but failure in all produces and has continued, at times, to produce through series of years demoralization and loss among shippers because of failure on the part of the railroads, as a whole, to at all times produce adequate means to carry their goods or products to market or the raw material or commodities to them.

The enumeration of most of the underlying causes that produce car shortage is not in a spirit of criticism of any railroad executive or any railroad. I am a railroad executive myself, among my "other troubles," and know the difficulties met with. Car shortage results from the present "state of the art." It could scarcely have been different up to recent years when these great machines have grown into inter-relations such as to justify the belief that the time has arrived when recognition must be given to the fact that the Federal Reserve System with Reserve Banks, to which allusion has been made, was established to supply the co-ordinating or clearing house influences to avoid financial panics and that unless a railroad clearing house agency is properly established car shortage panics such as at present will continue to occur.

TRAFFIC INEQUALITIES BETWEEN TERRITORIES

Just four years ago—January 19, 1919—representatives of the Association of which I am president appeared before the Senate Committee on Interstate Commerce. It was the first appearance of this organization before any legislative body; appearances had been made before the Interstate Commerce Commission.

There were four cardinal principles upon which this Association pinned its faith. One, that the problem—then termed by Senator Cummins "the

insoluble problem"—of failure to provide for the traffic inequalities between territories traversed by the various railroads must be solved, and we proceeded to make suggestions for its solution. Those suggestions are in the Transportation Act under that much discussed and "cussed" Section, (15a). I promised not to go into this subject for it requires some little detail, but it is necessary.

Railroads do not all occupy heavy traffic territories. Shippers, consumers and agriculturalists in sparsely settled territories of light traffic have as much right to have their problems of transportation adequately solved as you in Cincinnati have to require that your problems be solved. Railroads have been built through sparsely settled territories of light traffic. Other railroads have grown to immense proportions and a great many of them through subsidies by the Government that were proper to have been given in those days of great railroad pioneers who pierced the far west; they were entitled to everything that was necessary to enable them to construct empires along their systems. But be that as it may, the Government issued bonds and grants of millions of acres of lands to certain railroads which have since become very valuable. Vast traffic territories have been built up in many cases through which those railroads operate.

But the great majority of the railroads of the country operate in what are known as lean traffic territories. Now, we all know that a higher freight rate is essential to take care of the actual operating expenses of these majority railroads—those that occupy light traffic territories—than are required to maintain carriers that serve territories of dense traffic of the character traversed by the minority railroads.

PROVISIONS FOR RELIEVING TRAFFIC INEQUALITIES

For years did the Interstate Commerce Commission struggle with this problem—the insoluble problem of Senator Cummins. If the Commission made

rates that would suit the majority railroads operating in light traffic territories, they would yield earnings to the minority railroads operating in heavy traffic territories which the people would not stand for. On the other hand, if rates were made to yield what was considered a reasonable and fair return to the minority railroads operating in dense traffic territories, to which these railroads were only entitled, then the majority railroads in light traffic territories would starve to death. The Transportation Act, which contains our proposal, requires that the Commission shall group the carriers in each of the four or more rate-making districts, add together the *actual property value* of each group—not bonds and stocks—and on this aggregate value of property devoted to the public use adjust rates to yield sufficient revenue to enable each group of carriers to furnish transportation. The measure of return from rates thus adjusted was 5½% (½% additional at the option of the Commission) on the *aggregate* value of railroad property computed as stated. This measure of return was not to be computed on the property value of any single carrier of a group, but on the property value of *all* the carriers of a group. Each railroad could therefore earn from rates adjusted to the yield on the aggregate value of all the railroad property of a group only what its efficiency would entitle it to receive.

THE "TAKE OFF" ESSENTIAL

If any one railroad of a group earns revenue that equals more than a 6% return on the value of its individual property, then one-half goes into a transportation fund to be expended in the interest of transportation as a whole. This fund is not to be used to help so-called weak carriers, there is nothing taken from a rich or strong railroad to be given to a weak carrier, so often stated. The strong carrier has as much right to any benefits from the use to which the excess fund thus created can be put as the weak carrier, the Commission having control over the expenditure of this excess fund. Its proper expenditure

should be to buy freight cars as an emergency supply. Consider what an insurance it would be to the shippers if part, at least, of this excess fund were applied to the purchase of interchange freight cars, to be owned by the Service Corporation and used for the benefit of the shippers in extreme cases of heavy traffic requirements.

On March 1, 1922, the fixed measure of return (5½%, plus ½% at the option of the Commission) denoting carrier revenue expired by limitation, thereafter the Commission has full power to determine what this percentage should be, to be announced by the Commission from time to time. This announcement was considered necessary to enable investors to know whether the credit of these arteries of trade was to be maintained through a Government agency —the Commission.

SECTION 15A INDISPENSABLE PROPOSALS ACCEPTED AND THOSE NOT ACCEPTED

There has been more misunderstanding, misstatements in respect to this section of this Act than has occurred, perhaps, in any legislation ever passed by Congress. The provisions of Section 15a are indispensable to the maintenance of transportation as a whole, for rates cannot be made unless provision is also made to adjust the difference in result between railroads operating in light traffic territories and those operating in heavy traffic territories. Defeat this provision of the Act and you make it very difficult for the great majority of the carriers to give the facilities and service you should receive. Let Section 15a remain, but require that there shall be greater joint use of facilities to meet the needs of transportation with the incidental economies.

Do not forget that railroads are public carriers and unlike private business enterprises are regulated by the Government in every sphere of their activities. Having no control over their income and fifty per cent of their outgo (wages), their credit can be maintained

by giving an indication of the policy of the Government in its regulation. Therefore the announcement by the Commission as evidence of its policy from time to time is helpful to railroad credit.

The next proposal made before the Senate Committee that was accepted was that the divisions of freight rates, just the same as the adjustment of rates, should be left to the Commission. Carriers had not always allowed connecting roads a fair division of a freight rate.

The next suggestion to Congress, now provided in the Act, was that the Commission should have the right to relocate cars from one railroad to another in emergencies such as the country has been passing through. During the car shortage of 1920, immediately after their return from Federal control, the carriers invoked the aid of this emergency power by the Commission, and are at present pursuing the same policy.

The next proposition we made, but which was not included in the Act, was that upon failure on the part of the railroads to settle their wage and labor questions with their men they should be referred to a Division of the Interstate Commerce Commission with the right of appeal by either party to the full Commission.

The next—a very important fundamental—was that there should be a corporation of and by the railroads, subject to the Interstate Commerce Commission—a railroad clearing house agency—under Federal Act, for purposes which I will now discuss. If this clearing house agency had been provided in the Act and in full operation, the present car shortage could not have occurred.

KEY LOG IN JAM LOCATED—FINANCIAL

In May, 1920, shortly after the return of the railroads from Federal control, Senator Cummins called a hearing before the Senate Committee on Interstate Commerce, at the time of the threatened freight car shortage which later became acute, you will recall. There were present bankers of international repute

and representatives of the Association of Railway Executives. The Association of security owners was asked to appear; it was represented by me.

In answer to questions put by members of the Committee, the bankers stated that equipment of only the rich railroads of high credit could be financed and that in the then condition of the money market the carriers of weak credit—or the great majority of carriers—could not be financed.

Your especial attention is called to this hearing, because I regard its result as locating the key log in the whole car service jam. The bankers, representing great investing power, stated that the carriers generally could not finance their equipment, notwithstanding the fact that the Transportation Act provided $300,000,000 to be loaned to the railroads, part for equipment margin and for other purposes. Repetitions of like financial conditions will often occur. So, as heretofore stated, the key log is largely financial, not operating.

Appearing for the Association, I called the attention of Senator Cummins to our proposals, made in 1919 before his Committee, for the Federal incorporation of an agency to operate without profit, to aid in financing equipment and showed how this would be accomplished to take care of carriers of moderate credit. It is unnecessary to go into details at this time.

AMENDMENT TO MEET EQUIPMENT NECESSITIES

Later, representing the Association, I appeared before the Interstate Commerce Commission at a public hearing called to receive suggestions as to the division of the $300,000,000 Revolving Fund that Congress had provided in the Act to be loaned carriers to assist them to meet the needs of transportation.

I again put forward the organization of the clearing house corporation to enable this and other things to be done by the railroads.

It was stated by certain opposition, that the

Transportation Act made no provision for this money to be loaned other than to the individual carriers themselves, and that an amendment to the Act was necessary which could not be secured in the four or five remaining days of the pending session of Congress. I told the Commission that we would not only undertake to secure such an amendment, which we knew to be necessary, but would undertake to finance carriers unable to finance themselves in equipment. I saw several Senators and Representatives in Congress, with the result that an amendment was secured to the Transportation Act in the closing days of the session permitting part of this money to be loaned to a corporation for financing equipment, the amendment being attached to one of the appropriation bills then in conference between the two Houses, which was signed by the President and is now part of the Act.

CLEARING HOUSE AGENCY ORGANIZED COMMISSION'S APPROVAL

We organized the National Railway Service Corporation under Maryland general law and this is the corporation we desire reincorporated by Act of Congress with its usefulness thereby extended.

The Interstate Commerce Commission made loans to the Service Corporation to the extent of 40% of its issue of equipment trust obligations, 60% being taken by investing institutions.

In a memorandum giving its reasons therefor, the Commission stated that:

> "The National Association of Owners of Railroad Securities has urged the organization for this purpose (to finance equipment) of a National equipment corporation. *There are strong considerations in favor of such a project.*"

The memorandum further gave as reason for making loans from the $300,000,000 Revolving Fund for equipment that—

> "Freight cars are interchanged and enter into general use, subserving the general transportation needs of the public *regardless of ownership.*"

While the Commission based its equipment loans to carriers and the present Service Corporation on the theory that freight cars are operated "regardless of ownership," under the car service rules of the car service agency of the railroads just the reverse occurs, they are operated solely with *regard to ownership.*

The Service Corporation operates without profit. It financed $30,000,000 of equipment only as a demonstration of what could be done in bad times in taking care of the equipment needs of carriers. There are two classes of equipment trust obligations issued, one under what is known as the Conditional Sale Plan, the other under the Lease Plan. I will not bother you with the details of these two methods. Suffice it to say that the plan has proved eminently successful.

The Service Corporation can finance its equipment trust obligations *without* Government loans. We, however, reserved the right before its expiration, March 1, 1922, to later apply to the Commission for loans up to $100,000,000 from the Revolving Fund to help in the rehabilitation of bad order equipment. This would have been of great service if advantage had been taken of the offer made to the carriers at the time to put their bad order cars in order.

SERVICE CORPORATION UNDER FEDERAL CHARTER THE REMEDY

Now, let us see wherein the National Railway Service Corporation, if reincorporated under Federal Act, can be of service in meeting the five contributory obstructions to adequate car service which I have enumerated.

It has been shown that the Commission has the power to require a carrier to supply its quota of equipment, but neither the Commission nor the American Railway Association — the car service agency of the railroads—can finance it. As stated,

you cannot require a carrier to do something it may be financially unable to do unless you provide the means to accomplish it. The Service Corporation supplies the means.

The Service Corporation will also supply the means for financing rebuilt equipment for railroads under far-reaching, effective and economical methods.

Equipment, most of it, comes under the after acquired clauses of mortgages, so most all railroad cars are under mortgages. The method pursued, under such conditions, in rebuilt equipment is as follows:

A railroad sells cars for rebuilding to the Service Corporation. Their value is assessed by outside appraisers. These cars are purchased at the appraised value from the railroad, thus relieving the mortgage liens. The Service Corporation issues its equipment trust certificates to the extent necessary to supply the money for rebuilding, taking a lien on the purchased cars. These cars are rebuilt or rehabilitated under standardized plans for rebuilding; one class of car may require one treatment, another class another. After rebuilding, the cars are sold back to the railroad and pass under the mortgage that had formerly released them. Longer life has been added to them and often a better car is obtained than when originally purchased, so the mortgage lien has an added value. The value of the car itself when purchased from the railroad by the Service Corporation supplies the margin, so with this car value the carriers are not required to pay out cash margin from their treasuries.

BAD ORDER CARS REPAIRED OR REBUILT WOULD LARGELY HAVE SOLVED CAR SHORTAGE

There were about 350,000 bad order cars during the summer of 1922, three times more than what should be a normal number. If carriers had repaired or rebuilt a fair proportion of these cars (without having to

call upon their treasuries or use their securities for their financing, the offer made by the present Service Corporation) what a saving the country could have realized. The ability of the railroads, acting through the clearing house agency to finance at least a part of these bad order cars, would in itself have largely solved car shortage.

Taking up the fourth proposition of a greater supply, more extended use and distribution of freight cars, the Service Corporation through its Board of Trustees again affords the central agency, the clearing house, that would cause a survey to be made of the equipment conditions of each railroad, the character and amount of its equipment. Each railroad would show the equipment essential for its on line business, character of special equipment that should be confined to traffic routes, and the ordinary interchange cars to meet its normal requirements. When a railroad knows that each railroad is required to bring up its ownership of equipment to a point equal in proportion to that of every other railroad, there cannot be urged the same objection to the joint use of those freight cars that may be provided for pooling as at present where the railroads have not been required to take care of their pro rata amount of equipment essential to transportation as a whole.

A fair per diem or rental amount would be paid per car to the railroads supplying cars to a pool, making a per diem service charge for the use of pooled cars by the respective carriers cleared through the Service Corporation.

You have been passing through conditions where railroads have demanded through the Commission the "relocation" of cars, or the return to them of their own cars, loaded or unloaded, without respect to other interchange car service conditions. It may well be asked why have the railroads not provided for such conditions and the means to effectively relieve or prevent them without having to call upon the Commission. Over-regulation is constantly charged, yet it is continually courted.

A WELL BALANCED MANAGEMENT

The trustees of the Service Corporation would number twenty-four men, twelve named by the railroads of the United States—three from each of the four groups of carriers which the Commission has already formed in the four rate-making districts of the country. The remaining twelve trustees to be of a class similar to those who now compose the board of the present Service Corporation. This board is made up of presidents of large public investing institutions —life insurance companies and savings banks—they are not bankers, they speak for millions of people who have either their money deposited in the savings banks holding large investment in railroad securities or for the owners of life insurance policies protected by railroad securities. They represent a vital public interest and are able to look at the problems of transportation as a whole without respect to any individual railroad. They are men of wide experience in public affairs; they are familiar with questions of great moment before the public. So their experience has not been confined, if you please, to restricted or technical subjects. Together with the railroad representatives this produces a well-balanced and competent board.

The Service Corporation would be a railroad clearing house agency, operated without profit. It would lead the carriers away from the Interstate Commerce Commission because things that are now done by the Commission on the application of carriers should properly be done through this agency.

When railroad officials are named to go on this Board of Trustees by the groups of carriers in the four rate-making districts, they are naturally allied with the group of railroads that names them, preferably through a Group Railroad Board elected by each of the four railroad groups. So the Board of Trustees of the Service Corporation would act in conjunction with the four Group Boards, in conjunction with the officials that would be named to manage the Service Corporation and in co-operation with committees which the Service Corporation and the Group

Railroad Boards would select from among the many able men who deal directly with car service and transportation and who are officials or employees of the railroads constituting each of these groups.

Could any such competent organization be otherwise produced?

In October last, one of the principal railroads of the country appealed to the Commission to issue an *immediate emergency* order to provide it with an adequate supply of cars, declaring that the existing shortage on its line would result in disaster to grain, livestock, fruit and vegetable shipments, also to coal and lumber producers. In November, another large system made informal application for the use of the emergency power to supply freight cars to its lines. The Commission, doubtless realizing that this was primarily a matter of the railroads themselves, hesitated making use of the emergency power.

AN IMPORTANT COMMUNICATION
THE SURVEY BEGINS

Having since 1919 endeavored to bring about a general survey of the car service and equipment conditions of the country, on November 20th, 1922, I wrote to Commissioner Aitchison, Chairman, Division Five (Car Service Division) of the Interstate Commerce Commission. Attention was called in this communication to the serious car shortage conditions and to the powers granted to the Commission to ascertain the causes, reminding the Commission of our continual suggestion of a survey such as would reveal the equipment and car service situation.

On December 27th last, the Commission directed a questionnaire to all the railroads requesting data in respect to equipment, to an extent never before done in my recollection and as the first step in a general survey of car service.

The natural question for the public or the shipper to ask is why the railroads themselves have not made provision long ago for the ascertainment of this data with constructive effort to relieve conditions which

so frequently obtained. The answer is that there was no clearing house agency, such as has been suggested, for their ascertainment and that could relieve conditions *before* the emergency occurred.

RECOMMENDATIONS OF THE PRESIDENT AND JOINT COMMISSION OF CONGRESS

President Harding, in his annual message to the Congress, and it must be assumed this was the result of a thorough investigation, called attention to the unfortunate lack of transportation facilities and car service which confronted the shippers of the country and urged upon Congress the desirability of pooling certain classes of freight cars to relieve these conditions. The President called attention to the report of the Joint Commission of Agricultural Inquiry, composed of Members of both Houses of Congress, unanimously recommending to Congress the pooling of certain classes of freight cars *under a central agency*. The President further recommended to the Congress that ultimate decision of questions of wages and working conditions should be placed in the hands of a Division of the Interstate Commerce Commission. Your attention may be called to the recommendations of the Association of security owners in all these respects made as early as 1919.

Recently, the Chamber of Commerce of the State of New York passed resolutions urging upon Congress due recognition of the President's suggestions. There has been a general and widespread request upon Congress from various trade bodies throughout the country, as well as individual shippers, to enact legislation to require the carriers to perform a service that is now being asked to be performed by a Government agency *after the emergency has occurred* and which it is fair to say should have been avoided or performed on the railroads' own initiative.

The sole answer to our insistence that these matters be subjected, through a central clearing house railroad agency such as suggested, to a definite study along lines of our general recommendations to be conducted by those who would be considered the most com-

petent car service and transportation men in the employ of the American railroads and who would be available under the proposals made, is merely that of opposition and what appears to be a fixed determination to misunderstand the proposals we have made.

HOPELESS LACK OF UNDERSTANDING

I am just in receipt of a paper by a committee of the existing railroad car service agency which permits these conditions to continue—for one reason because it has not financial means or co-ordinating power to avoid them. The paper referred to evidences a hopeless lack of understanding of the suggestions we have made. For instance, it is asserted that the plan of pooling freight cars has not received the endorsement or approval of those best qualified to pass upon so important and far-reaching a subject (it must be assumed those are meant who have failed to stop car shortage), that the savings are theoretical and it is doubtful whether any savings could be realized. It may be said in answer, neither did the three fundamental requisites to adequate and successful transportation that were presented by us to Congress in 1919 and now in the Act have the endorsement or approval of those whom the author of the paper in question considers best qualified to pass upon so important and far-reaching a subject as car pooling. Yet those whom the paper considers competent to pass upon these matters are now much excited for fear that the measures we suggested in 1919, to which I have called attention, may now be stricken from the Transportation Act *which they opposed* when Congress included them in the Act!

It is also asserted, in the paper referred to, that our plans would place under a central agency the *absolute* control of *all equipment, shops and repair facilities* and that the *individual railroad would lose control over a part of its property, etc.*

Apparently entirely oblivious of the existing unsatisfactory car service conditions under present supervision, it is stated that what we propose assumes no responsibility for any disastrous effect of what might

follow a mistaken or improper policy in car distribution. You shippers may well ask—who assumes responsibility for the disastrous effect of car shortage under the present improper system of car distribution, to which they can hardly "point with pride"?

MISLEADING STATEMENTS

The paper referred to goes on to say our plans disregard the rights of shippers; that a grain road has provided cars that will carry grain and so on, as though we have proposed to in some way take away from the grain road its special equipment. But when it is said that our suggestions might destroy inventive competition because we urge standardization, and that the individual railroad would lose control of the maintenance of its equipment and other absurd, or, I might say, grotesque "misunderstandings," it becomes necessary to call attention to the fact that not one of the objectives we are said to seek has a single foundation in fact. It is an extraordinary state of affairs that, notwithstanding the proven failure of the existing car service system insofar as avoiding car shortage is concerned, there seems an inclination to misrepresent or decline to sanction such investigations as may correct present deficiencies.

It goes without saying that there is no purpose to *take over* railroad shops, repair or other shops; that there is no purpose to direct the movement of all equipment; that there is no purpose to disregard the rights of shippers, on the contrary to have some regard paid to those rights which apparently receive scant consideration now; that there is no purpose to pool specialized equipment, which should, however, be confined to traffic routes; that there is no purpose to standardize or pool equipment excepting under plans that will be thought out and produced by competent men *now with the railroads*, with some of whom I have discussed our proposals and are in favor of them. Many car manufacturers—and I have had discussion with a number—believe that large amounts will be saved by standardization, both in first cost and

also in carrying repair parts required under the present system.

SPECIALIZED EQUIPMENT POOLED

The gentleman who wrote the paper in opposition to our proposals may forget that even a specialized class of freight cars are already pooled to a great extent; I refer to refrigerator cars. He forgets that eighteen railroads of the country have pooled refrigerator cars under the Fruit Growers Express now operating in Southern and Southeastern territory. There is also the Pacific Fruit Express, another pool of refrigerator cars operating in Western territory. You are familiar with these pools, as far as they go, and doubtless desire that they shall go further. The Pullman Company manufactures and leases to the railroads all their chair and sleeping cars; this is a pool and their repair is taken care of through centralized methods.

We *have* a definite purpose, however, to obtain a survey of equipment and car service conditions conducted largely, if possible, by men who are now connected with the railroads and who are more competent than any other to make such survey. But this survey should be under conditions which will enable those who make it to speak their mind free from influences other than their purpose to report and make recommendations in accordance with their own untrammelled and unrestricted views. Should railroad officials object to men who are the actual operators of interchange freight cars getting together under a properly organized central clearing house agency of and by the railroads, authenticated by Congress, to devise ways and means for the greater and better distribution of interchange freight cars if it can be accomplished, whether by pooling or otherwise, for this is the plan, nothing more, nothing less? But if and when these men report that it will be highly beneficial to the shippers and to the railroads that certain classes of interchange equipment be pooled, which I am quite confident would be the result, this must be taken heed of. Any such report as should be

made in respect to methods to obtain a wider distribution of freight cars and a general plan for the observance of sane methods of repair and rebuilding, would be taken before the Commission which would say the final word. It is true that if the Commission would find the suggestions made to be in the public interest they would have the power to enforce them. But what railroad could stand against a manifest transportation and economic necessity, proven?

MIGRATORY CHARACTER OF INTERCHANGE CARS

Is not the whole question one of arithmetic and common sense? What is an ordinary interchange freight car, what are its purposes, to whom does it belong?

An ordinary interchange freight car is like a migratory bird, it should be fed and maintained where it lights. It is a hybrid. It finds its first purchase through a railroad, after which it leaves its rails and is used by many other railroads, probably one-half of its time. If a plan could be devised whereby this car, after it leaves the owner's rails, would be kept moving with a load, and that would care for its repair during transit, would not greater service be obtained from this car than were it loaded, sent away, hurried back to the point where it started without regard to the fact that as long as a freight car remains empty it is a charge against the shipper through the freight rate he pays, part of which maintains it?

Bear in mind every moment a car needlessly remains idle—unloaded at destination, or runs empty—it becomes a tax upon the shippers, for it is maintained out of the freight rate you pay. Yet there is no accredited, effective clearing house agency of the railroads with the powers essential to see that this car is kept in motion, economically maintained where it is, regardless of where it is owned, provided the rights of the owner are protected, the owner having the same right of use of cars of other owners under similar conditions. There are over 2,500,000 freight cars in the country, consider the cost of one day's needless idleness.

It seems to have been lost sight of among those

who on general principles do not wish any disturbance of existing conditions, that two-thirds of the purposes of the National Railway Service Corporation are financial, that is to say, that it would produce essentials for the prevention of car shortage that have been alluded to and which *no existing agency pretends to supply*. The tap root of car shortage cannot be cut without supplying the financial means such as is suggested to cut it.

A CLEARING HOUSE AGENCY UNDER RAILROAD OR GOVERNMENT AUSPICES?

If the carriers do not propose, through a centralizing clearing house agency of their own, formed under their auspices, operated under their management and direction, to perform service such as must be performed in due recognition of the needs of transportation as a whole, through which the public can only be adequately served, then the time will come when through Government auspices such a clearing house will be organized under Federal authority, under Federal management. This unfortunately would bring upon us Federal operation with all its ills. But the public will insist upon car service, that means be found to prevent transportation crises such as the country experienced before Federal control and has been going through almost since the carriers were returned to their owners. There has been sufficient warning of this during the past two years. If heed is not taken, if a railroad will not recognize that it is only one part of a great National transportation machine, then these conditions will be forced upon us. This can be avoided by the adoption of the proposals that have been presented.

An important further consideration is that through the proposals made, the organization in connection with the operation of the Service Corporation, including the four Group Railway Boards, would greatly facilitate logical and advisable consolidations.

The grouping of the railroads of the country into four rate-making districts, functioning through their respective group organizations, with the Service Corporation—the clearing house agency—in co-operation,

would bring about many of the economies and purposes sought to be secured through the large consolidations that are proposed. This method of approach should be a *condition precedent* to such consolidations as would be found to be in the public interest.

MOST IMPORTANT DOMESTIC PROBLEM BEFORE CONGRESS
SHALL IT REMAIN UNSOLVED?

We are told that nothing can be done in the present session of Congress to correct the conditions to which I have drawn attention. Should we not ask is it proposed to permit these conditions to continue into and through another crop movement without the means to permanently correct them? It takes time to put in effect the permanent remedy. It may well be also asked is there a domestic problem before Congress quite so important as that of car shortage through which the business interests generally of the country have been seriously hurt?

Nothing we have asked amends the Transportation Act. We do not wish that Act disturbed; later the Labor Board requirements may be amended. All you and we would ask is to charter this central agency without amendment, so that another seasonal freight movement would not be faced with another car shortage.

It is a genuine pleasure to be able to talk before so important a body of men as are gathered here. Perhaps I have imposed upon your patience but the subjects discussed are of supreme importance to you and to the country.

Let me hope that the Association of security owners may count upon your co-operation and great influence in assisting in bringing about conditions which will forever end car shortage, which has caused great loss not alone to you but to the country at large.

We are passing this problem along to you today. The shippers have the greatest concern in its solution. It should be handled through a movement by you, National in scope. This done, and you will have successful accomplishment.

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